

Message Text

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FM AMCONSUL TURIN
TO SECSTATE WASHDC 0643
AMEMBASSY ROME
INFO AMCONSUL FLORENCE
AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL NAPLES
AMCONSUL PALERMO
AMCONSUL TRIESTE
AMEMBASSY TRIPOLI

UNCLAS SECTION 1 OF 2 TURIN 0431

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SUBJECT: LIBYAN AGREEMENT WITH FIAT

REF: TURIN 0417, 0419, 0429

1. SUMMARY. LA STAMPA HAS PUBLISHED INTERVIEW WITH FIAT
NEGOTIATORS OF DEAL WITH LIBYA WHICH PROVIDES FURTHER
FINANCIAL DETAILS AND EMPHASIZES: LOW COST OF THREE-PRONGED
DEAL RESULTING IN 360 BILLION LIRE FOR FIAT AT AROUND SIX
PERCENT# LIBYAN SHARE IN FIAT WILL BE SMALL AND IN ANY
EVENT FIAT AND OTHER ITALIAN SHAREHOLDERS WILL CONTINUE TO
CONTROL "UNASSAILABLE" POSITION WITH OVER 51 PERCENT
CONTROL# FIAT PLANS ANNUAL INVESTMENT RATE OF 1,000 BILLION
LIRE AND LESS COSTLY FUNDS FROM LIBYA WILL BE ADVANTAGEOUS#
GOI APPROVAL EXPECTED BY FIAT GIVEN GOOD TERMS. END
SUMMARY.

2. DEC. 3 ISSUE OF NATIONWIDE DAILY "LA STAMPA" CARRIED
WELL-INFORMED, LENGTHY ARTICLE BY ECONOMIC EDITOR MARIO
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SALVATORELLI ON AGREEMENT REACHED BETWEEN FIAT AND ARAB

FOREIGN BANK OF LIBYA (REFTELS). SALVATORELLI'S REPORT BASED ON INTERVIEW WITH FIAT'S MANAGING DIRECTOR CESARE ROMITI AND I.F.I. MANAGING DIRECTOR GIANLUIGI GABETTI. REPORT ANALYZES SEVERAL PERTINENT ISSUES OF DEAL WHICH ARE SUMMARIZED BELOW.

3. CONTACTS BETWEEN FIAT AND LIBYAN GOVERNMENT ORIGINALLY TOOK PLACE TO NEGOTIATE SALE OF ONLY MODERATE VOLUME OF TRUCKS TO LIBYA. ABOUT 18 MONTHS AGO, FIAT'S OFFICIAL REPRESENTATIVE IN LIBYA WAS INFORMED OF LIBYAN GOVERNMENT'S INTENTION OF ACQUIRING INTEREST IN ITALIAN FIRM'S CAPITAL. TRANSACTIONS WERE LATER FOLLOWED UP SECRETLY, BOTH IN ROME AND IN MILAN, BETWEEN LIBYAN GOVERNMENT DELEGATES ON ONE SIDE AND GABETTI AND ROMITI ON THE OTHER.

4. NEGOTIATIONS WERE CONDUCTED SUBJECT TO ACCEPTANCE BY LIBYANS OF TWO CONDITIONS:

A. I.F.I. (FIAT'S FINANCIAL HOLDING COMPANY) WOULD UNDER NO CIRCUMSTANCES SELL ANY OF FIAT'S SHARES, BUT WOULD RATHER CONSIDER INCREASING FIAT'S CAPITAL STOCK. (IN FACT, I.F.I. HAD INCREASED ITS PERCENTAGE INTEREST IN FIAT'S CAPITAL DURING PAST 18 MONTHS.) ANY AGREEMENT WITH LIBYA MUST NECESSARILY INVOLVE ADDED CONTRIBUTION TO FIAT'S CAPITAL STOCK.

B. FIAT WOULD IN NO WAY ALTER ITS ESTABLISHED LONG-TERM INDUSTRIAL EXPANSION PROGRAM WHICH IS BASED ON PROFITABLE INVESTMENTS AND OTHER COMMERCIAL VENTURES. SUCH PROGRAM HAS TRADITIONALLY BEEN ENTRUSTED TO FIAT'S "MANAGEMENT" AND MUST NOT BE AFFECTED BY INDIVIDUAL INTERESTS OF PRESENT OR FUTURE STOCKHOLDERS.

5. HERE IS NO JUSTIFICATION FOR ASSUMING THAT LIBYA'S HIGH-PRICED 6,000 LIRA PAYMENT PER SHARE (I.E., 12 TIMES THE NOMINAL VALUE AND FOUR TIMES INDIVIDUAL OPEN MARKET STOCK EXCHANGE QUOTATION PREVIOUS TO ANNOUNCEMENT OF DEAL) MIGHT HAVE BEEN PROMPTED BY DESIRE TO SECURE INITIAL SUBSTANTIAL BLOCK TO BE EXPANDED THROUGH SUBSEQUENT UNCLASSIFIED

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PURCHASE OF FIAT SHARES ON STOCK MARKET. IN THIS RESPECT, ROMITI CLARIFIED WHY MANEUVER WOULD BE TECHNICALLY UNFEASIBLE. I.F.I., HE EXPLAINED, CURRENTLY CONTROLS 33 PERCENT OF FIAT'S ORDINARY SHARES (ONLY ONES PROVIDING USEFUL VOTING POWER). AS RESULT OF CAPITAL INCREASE UNDER DEAL WITH LIBYA, NUMBER OF SHARES IN I.F.I.'S CONTROL WILL REMAIN UNCHANGED, BUT PERCENTAGE SHARE WILL DROP TO 30.5, WHEREAS LIBYANS WILL HOLD 9.1

PERCENT. AT OUTCOME OF SECOND PHASE (I.E., CONVERSION OF SECURITIES INTO STOCK), LIBYAN SHARE WILL RISE TO 13.04 PERCENT, WHILE I.F.I.'S WILL DECREASE TO 29.2 PERCENT. BY ADDING TO THIS 29.2 PERCENT THE STOCK CONTROLLED BY FIAT'S SO-CALLED "INSTITUTIONAL INVESTORS," I.E., BANKS THAT HAVE INVESTED THEIR EMPLOYEES' RETIREMENT FUNDS OR OTHERWISE PERMANENTLY HOLD FIAT STOCK, AS WELL AS INDUSTRIAL COMPLEXES HAVING A PARTICIPATION IN FIAT STOCK, THE AGGREGATE ITALIAN INTEREST IS MORE THAN 51 PERCENT, A BLOCK THAT REMAINS "UNASSAILABLE," IN ROMITI'S OPINION.

6. MOREOVER, ROMITI NOTED THAT HAD LIBYA ATTEMPTED TO PURCHASE SIMILAR AMOUNT OF SHARE CAPITAL BY BUYING FIAT STOCK ON OPEN MARKET, LIMITED NUMBER OF SUCH AVAILABLE STOCK WOULD HAVE MEANT STRONG PRESSURE ON STOCK PRICE, PROBABLY PUSHING IT ABOVE 6,000 LIRE AND IT ALSO WOULD HAVE BEEN VERY DIFFICULT TO OBTAIN CONTROL IN 10 TO 13 PERCENT RANGE. LIBYA ALSO WOULD NOT HAVE HAD FIAT AGREEMENT FOR TWO LIBYAN BOARD MEMBERS.

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BASSY ROME 0865 INFO AMCONSUL FLORENCE 0026

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AMCONSUL MILAN

AMCONSUL NAPLES

AMCONSUL PALERMO

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7. OMITI THEN DETAILED FINANCIAL ASPECTS OF COSTS ASSUMED BY FIAT IN ORDER TO OBTAIN TOTAL OF 360 BILLION LIRE FROM LIBYA.

A. INITIAL CAPITAL INCREASE WILL PROVIDE FIAT WITH 180 BILLION LIRE, I.E., RESULT OF MULTIPLYING 30 MILLION SHARES BY 6,000 LIRE. ONLY 15 BILLION LIRE OUT OF THIS AMOUNT WILL BE USED BY FIAT FOR PAID-IN CAPITAL, WHILE REMAINDER (CORRESPONDING TO 5,500 LIRE SURCHARGE ON EACH SHARE) WILL BE DEVOTED TO IMPROVEMENT OF FIAT RESERVES. ANTICIPATING NET DIVIDEND OF 25 PERCENT ON NOMINAL SHARE PRICE OF 500 LIRE EACH, ROMITI SAID ULTIMATE COST OF 180 BILLION LIRE WILL BE 7.5 BILLION LIRE PER YEAR.

B. ADDITIONAL 90 BILLION LIRE DERIVING FROM DEBENTURE LOAN WILL COST FIAT 9.5 PERCENT, I.E., 8.55 BILLION LIRE, ROMITI SAID. AGAIN, THERE IS A PLANNED DIVISION BETWEEN PAID-IN CAPITAL AND RESERVES, 7.5 BILLION LIRE OUT OF 90 BILLION LIRE FOR PAID-IN CAPITAL AND REMAINING 82.5 BILLION FOR RESERVES.

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C. FINALLY, ROMITI SAID THAT DOLLAR LOAN WILL COST 5.75 PERCENT OR 5.2 BILLION LIRE AT CURRENT EXCHANGE RATE.

D. ROMITI CONCLUDED THAT THESE THREE FIGURES ADD UP TO 21.25 BILLION LIRE, OR LESS THAN SIX PERCENT ON 360 BILLION LIRE. HE STRESSED THIS WAS A MUCH LOWER COST THAN ANYTHING AVAILABLE ON THE MARKET, EVEN FOR MEDIUM AND LONG-TERM CREDIT WHICH RUNS TO 15 TO 16 PERCENT AND IS NOT ALWAYS EASY TO OBTAIN IN ITALY. MITI ALSO CONCLUDED BY SUMMARIZING TWO STOCK TRANSACTIONS (PHASES ONE AND TWO, PARA 7 AND B, ABOVE) AS FOLLOWS: ONLY 22.5 BILLION (15 PLUS 7.5) OUT OF TOTAL 270 BILLION LIRE (180 PLUS 90) WILL BE PAID INTO CORPORATE CAPITAL, WHILE 247.5 BILLION BALANCE WILL BE FED INTO RESERVES.

8. ROMITI AND GABETTI LOOK FORWARD TO GOI APPROVAL:

A. AS FOR AUTHORIZATION OF CAPITAL INCREASE, PROBLEM COULD BE FORESEEN ONLY IF IT AFFECTED "AVAILABILITY OF DOMESTIC SAVINGS," WHICH IS NOT APPLICABLE IN THIS CASE SINCE CONTRIBUTION ORIGINATES FROM, AND IS TO BE SUBSCRIBED TO BY NON-ITALIAN SOURCE.

B. AS FOR SECOND REQUIRED GOI ENDORSEMENT REGARDING "ADVISABILITY OF SOLICITING ANY PARTICULAR FOREIGN INVEST-

MENT," ROMITI WAS CONFIDENT THAT GOI WOULD AGREE THAT INVESTMENT IS DESIRABLE FOR FIAT AS WELL AS FOR ITALY AT THIS TIME.

9. ROMITI SAID ONE REASON WHY FIAT DID NOT INFORM GOI BEFOREHAND OF NEGOTIATIONS AND IMPENDING AGREEMENT WAS BECAUSE OF FEAR THAT NEWS WOULD LEAK AND THEREFORE WOULD DRIVE UP STOCK PRICE AND FIAT MIGHT HAVE FACED CHARGES OF STOCKJOBING.

10. AS FOR FIAT'S CAPITAL NEEDS, ROMITI AND GABETTI SAID THAT AS OF AUGUST 30, 1976, FIAT'S LIQUIDITY WAS ESTIMATED AT 166 BILLION LIRE. ROMITI SAID PROPOSED DESTINATION OF THE FORTHCOMING 360 BILLION LIRE FROM LIBYA (180 PLUS 90 BILLION LIRE, PLUS CA. 90 BILLION LIRE EQUIVALENT OF UNCLASSIFIED

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DOLLAR LOAN) WAS MAINLY INVESTMENT CAPITAL. HE SAID FIAT HAD INVESTED EQUIVALENT OF 900 BILLION LIRE THIS YEAR AND INTENDED TO MAKE STEADY FUTURE INVESTMENTS AT ANNUAL RATE OF 1,000 BILLION LIRE. SUCH PLANS WOULD HAVE REQUIRED RE COURSE TO BANK LOANS, BUT WITH AGREEMENT WITH LIBYA, FIAT WILL BE IN POSITION TO MAKE INVESTMENTS AT COST MUCH LOWER THAN WOULD HAVE BEEN CASE WITH CAPITAL BORROWED ON COMMERCIAL MARKET.

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